

# REQUEST FOR PROPOSAL



**King County**

[www.metrokc.gov](http://www.metrokc.gov)

**Finance and Business Operations Division**  
Procurement and Contract Services Section  
Department of Executive Services  
EXC-ES-0825  
Exchange Building, 8th Floor  
821 Second Avenue  
Seattle, WA 98104-1598  
**206-684-1681**  
206-684-1147 Fax  
TTY Relay: 711

PROPOSAL NUMBER: **133-03CMB**

PROPOSAL **July 31, 2003** TIME: 2:00  
OPENING P.M.  
DATE:

**ALL PROPOSALS SHALL BE SUBMITTED TO  
THE PURCHASING SECTION NO LATER THAN  
2:00 P.M. EXACTLY**

BUYER: **Roy L. Dodman**

REQUISITION #: PP105358

DATE ISSUED: June 19, 2003

**TITLE: INVESTMENT ADVISOR FOR KING COUNTY DEFERRED COMPENSATION PROGRAM  
KING COUNTY DEPARTMENT OF EXECUTIVE SERVICES – FINANCE & BUSINESS OPERATIONS DIV.**

## ADDENDUM NO. 1

This addendum is issued to revised the original Request for Proposal, dated June 19, 2003 as follows:

1. The proposal opening date remains the same: Thursday, July 31, 2003 no later than 2:00 p.m. exactly.
2. Included with this Addendum is the *Statement of Investment Policies and Guidelines*, as well the *List of Plan Options* noted under *Section II – Project Specifications and Scope Services, Part A, Background* of the RFP.

**TO BE ELIGIBLE FOR AWARD, THIS ADDENDUM MUST BE SIGNED AND SUBMITTED TO  
KING COUNTY PROCUREMENT AND CONTRACT SERVICES.**

**NOTE: INFORMATION WITHIN BORDERED AREA MUST BE COMPLETED AND SIGNED.**

This document can be made available from the ADA Liaison, at (206) 296-4210 or TDD (206) 296-0100, in large print, audio cassette, or Braille.

LEGAL NAME OF OFFEROR/CONTRACTOR (PRINT OR TYPE)	NAME OF AUTHORIZED REPRESENTATIVE (PRINT OR TYPE)
STREET	TITLE
CITY STATE ZIP	SIGNATURE
TELEPHONE NUMBER FAX NUMBER	E-MAIL ADDRESS

# King County Employees Deferred Compensation Plan

June 2002

## STATEMENT OF INVESTMENT POLICIES AND GUIDELINES

### **Introduction and Purpose**

The King County Employees Deferred Compensation Plan Board (Board) adopts this statement to provide a clear understanding of the Board's investment policies, guidelines and objectives. The King County Employees Deferred Compensation Plan (the Plan) is a voluntary, salary-deferral plan available to eligible employees. The Plan's purpose is to provide a vehicle for and to encourage additional retirement savings, to supplement Social Security and the State's retirement benefits provided to County employees. Participant investments made through the Plan are encouraged for retirement and other long-term purposes. The Board recognizes that participants are solely responsible for their own investment decisions. The Board makes no representations, promises or warranties regarding the suitability of Plan participation for any Participant's individual investment or retirement needs. The Board further makes no representations, promises or warranties about the performance of the Plan or the Plan's investments. Participants accept all gain/loss consequences associated with their decisions.

### **General Compliance**

The Plan is designed to meet the requirements of Section 457 of the Internal Revenue Code of 1986 (the Code), as amended. These Plan investment policies and guidelines shall be reviewed on an annual basis for modifications, as needed, but may be modified at any time as deemed necessary by the Board.

### **General Investment Policy, Objectives and Standards**

It is the policy of the Board to foster an investment environment that assists Plan participants in their individual efforts to achieve significant sources of supplemental retirement income, while keeping the cost of administering the Plan, and the cost to participants, at reasonable levels.

The primary investment objective of the Plan is to present participants with a prudent range of investment options that gives participants an opportunity to increase the value of their investment assets in a manner consistent with individual levels of comfort in making investment decisions and tolerances for investment risk/reward relationships. While the Plan cannot meet all participant investment preferences and attitudes, the Plan attempts to provide investment vehicles for participants at various levels of investment sophistication and with varying requirements for risk and return, such as:

- 1) Unsophisticated and 'target' investors: access to diversified funds that are targeted to certain retirement horizons or risk tolerances.
- 2) More sophisticated investors desiring greater flexibility: access to key asset classes and the ability to set their own asset mix.

It is also a Plan objective that the investment options offered in the Plan perform well relative to accepted benchmarks for measuring investment performance and risk. The Board will review periodically the performance and risk relationships of the Plan's investment funds. The Board believes that each investment option should be given a full market cycle to achieve the following stated objectives (market cycles normally occur over 3- to 5-year time periods): 1) An investment option should meet or exceed a predetermined benchmark index, net of fees; 2) an investment option should perform within the upper half of a recognized and defined sample of same-style peers, where definable, net of fees; and 3) the risk associated with an investment option generally should be similar to the same-style peer group. Evaluation of performance relative to benchmarks and same-style peers will be conducted quarterly.

## **Investments**

The Plan will assist participants in meeting their long-term investment objectives by providing investment options within the following permitted investment categories:

- a) Tier 1: Pre-mixed Funds (e.g., lifestyle funds)
  - Conservative Growth Fund
  - Moderate Growth Fund
  - Growth Fund
- b) Tier 2: Asset Class Funds
  - Stable Value Fund
  - Total Return Bond Fund
  - High Yield Bond Fund
  - U.S. Large Cap Index Fund
  - U.S. Large-Mid Cap Growth Fund
  - U.S. Large-Mid Cap Value Fund
  - U.S. Mid Cap Growth Fund
  - U.S. Small-Mid Cap Value Fund
  - U.S. Small Cap Growth Fund
  - International Funds
- c) Tier 3: Specialty Funds
  - Socially Responsible Fund
  - Others as approved by the Board
- d) Tier 4: Self-directed Brokerage account

The Board has the right to add or delete categories and investment options without prior notice to Plan participants. Mutual funds, insurance contracts or collective trust funds are the authorized investment vehicles, used where appropriate. At least one investment option shall be available within each investment category.

The following table outlines the objectives and performance benchmarks for each of the Plan's investment options. The risk associated with an investment option will be compared to appropriate risk benchmarks or measures for a same-style group of peer funds, where definable.

**Fund Descriptions/ Investment Objectives****Benchmark****PRE-MIXED FUND: CONSERVATIVE GROWTH**

Custom Blended Index

- Provide current income and low-to-moderate growth of capital through a combination of cash, stocks and bonds. The portfolio will be well diversified including U.S. fixed-income securities, and U.S. and international equities. Stocks generally will comprise 30%-50% of the total portfolio. The percentage of international equities generally will not exceed 20% of the equity portion of the fund.

**PRE-MIXED FUND: MODERATE GROWTH**

Custom Blended Index

- Provide moderate growth of capital and current income through a combination of cash, stocks and bonds. The portfolio will be well diversified including U.S. fixed-income securities, and U.S. and international equities. Stocks generally will comprise 50%-70% of the total portfolio. The percentage of international equities generally will not exceed 30% of the equity portion of the fund.

**PRE-MIXED FUND: GROWTH**

Custom Blended Index

- Provide growth of capital through a combination of cash, stocks and bonds. The portfolio will be well diversified including U.S. fixed-income securities, and U.S. and international equities. Stocks generally will comprise 70%-90% of the total portfolio. The percentage of international equities generally will not exceed 40% of the equity portion of the fund.

**STABLE VALUE FUND**90-Day Treasury Bills  
Index + 1%

- Provide high relative current income and a high degree of investment safety without fluctuation of principal. Investment returns are derived primarily from interest income, with the possibility of some capital appreciation (or depreciation) of the underlying investment instruments. Generally this fund will be invested in guaranteed investment contracts (GICs) and/or "synthetic" portfolios, each comprised of investments generally maturing in one to seven years, and which provide for a reasonable degree of liquidity. The weighted-average maturity of the Stable Value Fund generally will be between two to four years. Products from different issuers are permitted within the fund, but generally, no single issuer of a contract, among all those held by the fund, shall comprise more than 20% of the fund's total assets, 5% when the assets of the contract are part of the issuer's "general account." The overall weighted credit-quality rating of the fund shall be the equivalent of Aa2 (Moody) or higher. The rating must be obtained from at least one credit rating agency such as Moody, S&P or Fitch, Inc. (formerly Duff & Phelps). If the fund's weighted rating declines below Aa2, the fund will be evaluated for possible corrective action.

**TOTAL RETURN BOND FUND**Lehman Bros.  
Aggregate Bond Index

- Provide income and capital appreciation without undue risk to principal through a diversified bond portfolio.

**HIGH YIELD BOND FUND**Merrill Lynch High  
Yield Index

- Provide high current income and capital appreciation through a diversified portfolio of non-investment grade high yield securities of various maturities.

**U.S. LARGE CAP INDEX FUND**

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S&amp;P 500 Index

- Provide long-term capital appreciation through a diversified, passively managed common stock portfolio. The index fund must seek to replicate the aggregate price and yield performance, before fund expenses, of the S&P 500 Index.

**U.S. LARGE-MID CAP GROWTH FUND**

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Russell 1000 Growth Index

- Provide long-term capital appreciation through a diversified, growth-oriented common stock portfolio, such that the overall portfolio generally has an average market capitalization greater than \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included; however, their use generally should not exceed 20% of the portfolio.

**U.S. LARGE-MID CAP VALUE FUND**

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Russell 1000 Value Index

- Provide long-term capital appreciation through a diversified, value-oriented common stock portfolio, such that the overall portfolio generally has an average market capitalization greater than \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included; however, their use generally should not exceed 20% of the portfolio.

**U.S. MID CAP GROWTH FUND**

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Russell Midcap Growth Index

- Provide long-term capital appreciation through a diversified, growth-oriented common stock portfolio investing in companies with market capitalizations generally between \$2 billion and \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included but their use generally should not exceed 20% of the portfolio.

**U.S. SMALL-MID CAP VALUE FUND**

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Russell 2000 Value Index

- Provide long-term capital appreciation through a diversified, value-oriented common stock portfolio investing in companies with market capitalizations generally between \$250 million and \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included but their use generally should not exceed 20% of the portfolio.

**U.S. SMALL CAP GROWTH FUND**

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Russell 2000 Growth Index

- Provide long-term capital appreciation through a diversified, growth-oriented common stock portfolio investing in companies with market capitalizations generally between \$250 million and \$2 billion. Stocks of foreign companies that are traded in the U.S. may also be included but their use generally should not exceed 20% of the portfolio.

## **INTERNATIONAL FUNDS**

- Provide long-term capital appreciation through a diversified portfolio of international equities. Stocks of emerging countries may be used at the discretion of the manager, but their use generally should not exceed 30% of the international stock portion of the portfolio. At least one fund shall employ a growth-oriented stock selection process, and at least one fund shall employ a value-oriented stock selection process.

Morgan Stanley  
Capital International  
(MSCI) All Country  
World Index (ACWI)  
Free ex-US<sup>1</sup>

<sup>1</sup> Prior to December 31, 1999, the benchmark was a blend of 85% MSCI EAFE and 15% Emerging Markets Free.

## **SOCIALLY RESPONSIBLE FUND**

- Provide long-term capital appreciation through a diversified, common stock portfolio of companies screened to meet selected “socially responsible” criteria. Stocks of foreign companies may be included but generally should not exceed 20% of the portfolio.

Domini 400 Social  
Index

## **SELF-DIRECTED BROKERAGE (SDB)**

- For Plan participants who consider themselves to be knowledgeable about investment principles, the Plan may offer a brokerage account option. Such option may be provided through one or more broker-dealers, as defined and regulated by the National Association of Securities Dealers, Securities Exchange Commission or State Securities Departments.

N/A

Assets held in an SDB will be maintained in the name of the Plan Trustee or custodian for the benefit of the participant who established the account. Permissible investments for an SDB may include registered mutual funds, stocks and fixed income securities. Futures and options are not permitted. It is the SDB account holder's responsibility to adhere to these and any other restrictions placed on him or her by the Board, broker-dealer or regulatory body. It is also the account holder's responsibility not to engage in transactions prohibited by statute or any regulatory entity. The Board may further restrict permissible investments available in the SDB.

Each SDB account holder will be responsible for his or her own commissions, fees or loads applicable to individual securities or mutual fund transactions for the account.

## **Investment Guidelines and Monitoring**

- The Board requires investment funds and fund managers to comply with all applicable laws, rules, and regulations. However, the Board takes no responsibility for the failure of such fund and/or manager to comply with any and all applicable laws, rules or regulations.
- All funds must have readily ascertainable market values and be easily marketable. It is recognized that GIC funds often have liquidity restrictions. Funds with redemption fees or deferred sales charges will be avoided to the extent possible.
- The Board requires that each investment portfolio be diversified adequately to reduce risk and comply with current regulations, including Washington State fiduciary standards.
- Compliance with the fund prospectus and these policy guidelines will be monitored regularly. Monitoring will include, but not be limited to, a review of:
  - Investment portfolios;
  - Investment process and philosophy; and
  - Investment management personnel.

The Board will evaluate fund performance and risk no less frequently than quarterly. Performance and risk results will be evaluated using comparisons with this policy, pertinent market indices and against other same-style peers, where definable. When necessary, fund performance and risk will be reviewed more frequently.

### **Fund Selection Guidelines**

Before introducing a new investment fund, the Board will define the niche to be filled and assess the investment fund's performance, quality, and risk characteristics. At a minimum, investment funds under consideration should satisfy performance and risk considerations under actual, not modeled, conditions and over an appropriate time period. Fund selection considerations include, but are not limited to the following:

- The fund should generally, but not necessarily, have a history that spans a full market cycle, normally three to five (3-5) years.
- The fund should generally meet or exceed its predetermined benchmark index, net of fees.
- The fund should generally perform within the upper half of a recognized and defined sample of same-style peer funds, with acceptable risk.

### **Fund Termination Guidelines**

Generally, all investment funds are expected to remain true to their stated investment objectives and perform as well as or better than their prescribed performance benchmarks, net of fees, with acceptable risk, as per the Fund Selection Guidelines described above.

A watch status may be initiated when a fund option trails its benchmark or peers for at least two quarters on a rolling three-year basis. The two quarters of under-performance may be consecutive or may be within a series of quarters that demonstrate a pattern of under-performance on a rolling three-year basis.

If the fund's three-year trailing performance does not return to above median versus same style peers and its benchmark within two quarters of being placed on watch, the fund will be considered for termination.

In any case, the Board reserves the right to terminate investment fund relationships at any time, for any reason, without prior notice to Plan participants. The Board, at its option and without prior notice to Plan participants, may freeze further participant contributions to a fund and/or replace the fund, with or without transferring existing assets from the replaced fund. Once the decision to terminate a fund is made, asset transfer and liquidation, as appropriate to the action taken, should be handled to the best advantage of the Plan, with due consideration given to impacts on Plan participants.

### **Investment Oversight Responsibility**

The Board shall have overall responsibility for the selection, monitoring and termination of all fund managers. Additionally, the Board shall be responsible for reviewing and maintaining these investment policies and guidelines.

Proxy votes required by fund managers shall be cast by those parties designated by the Board, with the best interests of the Plan in mind, and with due consideration given to impacts on Plan participants.

### **Use of Independent Investment Consultant**

The Board will engage an independent investment consultant (Consultant) to assist in carrying out the Board's duties and responsibilities hereunder. Such Consultant must be registered with either state or federal securities regulators pursuant to the Investment Advisors Act of 1940. The services of the Consultant may include, but are not limited to, the following:

- Comprehensive review of this Investment Policy Statement at least annually.
- Assist in the selection of investment products and managers.
- Conduct due diligence monitoring of the Plan's investment options and report to the Board.

- Assist in the implementation of any recommended investment manager changes, including acting as liaison with service providers during the transition and funding phase.
- Provide quarterly reports on the performance of the funds and meet quarterly with the Board to review how the results measure up against the Board's objectives and discuss any items requiring clarification or Board action.

The Consultant may also periodically identify and evaluate the fees and costs of the Plan including investment management, trust and custody, administrative services, education and consulting fees.

The Board shall formally adopt, reject or otherwise comment on, by motion, any recommendation the Consultant makes to the Board.

ADOPTED BY THE BOARD ON BEHALF OF THE KING COUNTY EMPLOYEES DEFERRED COMPENSATION PLAN:

\_\_\_\_\_  
Date                      Name:                      Title:

ANNUAL REVIEWS PERFORMED ON:

\_\_\_\_\_  
Date                      Date                      Date                      Date                      Date



## King County Employees Deferred Compensation Plan Investment Options

<b>Fund</b>	<b>Symbol</b>
American Aadvantage High Yield Bond	AYBFX
Artisan Small Cap Value	ARTVX
Artisan International	ARTIX
Brown Capital Management Small Company Institutional	BCSIX
Domini Social Equity	DSEFX
Dwight Asset Management Company (SEI Stable Asset Fund)	*
Oakmark International Fund	OAKIX
PIMCO Total Return Administration	PTRAX
T. Rowe Price Blue Chip Growth	TRBCX
T. Rowe Price Equity Index Trust	*
T. Rowe Price Equity Income	PRFDX
T. Rowe Price Mid-Cap Growth	PRMGX
T. Rowe Price Personal Strategy Balanced	TRPBX
T. Rowe Price Personal Strategy Growth	TRSGX
T. Rowe Price Personal Strategy Income	PRSIX

\*Note: The Stable Value Pool and TRP Equity Index Trust do not have ticker symbols.